

STATE OF WASHINGTON

DEPARTMENT OF SOCIAL AND HEALTH SERVICES

P.O. Box 45010, Olympia, Washington 9X504-5010

March 15, 2004

Mr. Dennis G. Smith, Director  
Center for Medicaid and State Operations  
Centers for Medicare and Medicaid Services  
Mailstop C5-21-17  
7500 Security Boulevard  
Baltimore, Maryland 21244-1850

Dear Mr. Smith:

This is to confirm receipt of the Department of Health and Human Services (HHS) approval of our Medicaid demonstration application (Project No. 11-W-OO 180/0) for a five-year period, effective February 1, 2004. In order to confirm our acceptance of the Special Terms and Conditions (STC) for HHS approval of the demonstration, we need to set forth necessary changes in our application request.

Our State Legislature enacted the 2004 Supplemental Budget (SHB 2459) on March 11, 2004. The budget negotiations among the Washington State House of Representative, Washington State Senate, and Governor Locke included whether to proceed with implementing premiums for Medicaid health coverage for Categorically Needy (CN) Optional Children in households with incomes above the federal poverty guideline (FPG).

Enactment of SHB 2459 now directs the Department of Social and Health Services (DSHS) to proceed with implementing premiums, effective July 1, 2004, for CN Optional children in households above 150% of PPG at \$10 per month per child. Premiums will be limited to three-children per household. This will limit family costs to no more than 1.1% of gross household income.

CN Optional children in households between 100% and 150% of FPG would not be charged premiums at this time. Although not part of our demonstration, the Legislature also has directed us to increase State Children's Health Insurance Program (SCHIP) premiums from \$10 to \$15 per-month.

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Our HHS approved waiver allowed \$15 per month premiums for CN Optional children in households between 100% and 150% of FPG, and \$20 per month for CN Optional children in households between 151% and 200% of FPG. Families would be subject to a three premium maximum so that costs would be less than 3.0% of gross income for any family.

As a condition for proceeding with the demonstration, we want to retain the ability to increase premiums up to the amounts approved for Project No. 11-W-OO 180/0, for the entire CN Optional children's population. However, we would submit and obtain approval of a waiver amendment as a "technical change in policy and procedures" described in STC Section IV.3 (Amending the Demonstration) before implementing any changes. Both HHS and DSHS would be subject to the 90-day timelines set forth in STC Section VII. 1 (Operational Protocol Timelines and Requirements).

As confirmed in our most recent July 18, 2003, waiver application, we agreed to use the per-capita cap budget neutrality methodology prescribed in STC Attachment B. The STC proposes to use the base year expenditure per-capita cost (\$102.16 PMPM) and annual trend factor (7.2%) that were submitted in our July 18<sup>th</sup> application.

The Health Insurance Flexibility and Accountability (HIFA) demonstration waivers use the same methodology. We understand that CMS has a HIFA policy that the trend rates can be based on a comparison of a state's specific history or the President's Budget Medicaid baseline for the eligibility groups covered by a State's proposal, and the CMS policy has been to use the lower of these two trend factors.

In order to confirm our acceptance of the STC, we need to know what the President's baseline is for CN non-grant children. This will provide us with some assurances that the proposed trend factors are "reasonable" for the forthcoming five-year period. Should national health care trends significantly change, we reserve the right to re-negotiate the STC for this waiver.

We understand, per your February 13, 2003, letter, HHS has not approved our requested American Indian (AI) and Alaskan Native (AN) children's premium exemption at this time. Your letter states that HHS believes that this exemption may violate the strict scrutiny test applicable for race, color or national origin classification under Title VI of the Civil Rights Act of 1964. As requested, we will be submitting an explanation of how our AVAN exemption is consistent with the strict scrutiny test.

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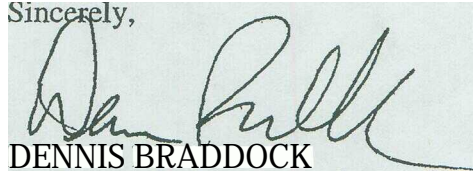
Your February 13<sup>th</sup> letter approves our Medicaid demonstration for five years, with a February 1, 2004, effective date. This date may have been selected to match our initial premium implementation date. Our state legislature has delayed implementation until July 1, 2004, in order to give us time to complete our waiver negotiations and to issue information and notices to families about the premium requirements. We therefore request that the effective data for Project No. 11-W-OO 180/0 be moved from February 1, 2004 to July 1, 2004.

As set forth in your February 13, 2003, STC Section VELI, we will submit an Operational Protocol document at least 60 days prior to program implementation. The document will address the requirements outlined in Section VII.2. We also will submit an evaluation design as described in STC Section 112 within 90 days of our award date of February 1, 2004.

With the changes described above, and acknowledgement that we are continuing to negotiate on the AI/AN exemption, we accept the STCs transmitted with your February 13, 2003, letter.

Doug Porter and his staff will coordinate the submittals and other necessary information with our Title XIX Demonstration Project Officer, Julie Harkins.

Sincerely,



DENNIS BRADDOCK  
Secretary

cc: Governor Locke  
Douglas Porter  
Liz Dunbar  
Stan Marshburn  
Marty Brown  
Wolfgang Optiz  
Ree Sailors  
Karen O'Connor  
Jean Sheil  
Julie Harkins